



## FINANCIAL STRATEGY ADVISORY GROUP

Friday 27 June 2025 at 2.00 pm

Place: Council Chamber - Epsom Town Hall

The members listed below are summoned to attend the Financial Strategy Advisory Group meeting, on the day and at the time and place stated, to consider the business set out in this agenda.

Councillor Neil Dallen (Chair)  
Councillor Kate Chinn  
Councillor Alex Coley

Councillor Liz Frost  
Councillor Peter O'Donovan  
Councillor Clive Woodbridge

Yours sincerely

Chief Executive

For further information, please contact [democraticservices@epsom-ewell.gov.uk](mailto:democraticservices@epsom-ewell.gov.uk) or tel: 01372 732000

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### **Public information**

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### **Exclusion of the Press and the Public**

There are no matters scheduled to be discussed at this meeting that would appear to disclose confidential or exempt information under the provisions Schedule 12A of the Local Government Act 1972 (as amended). Should any such matters arise during the course of discussion of the below items or should the Chair agree to discuss any other such matters on the grounds of urgency, the Committee may wish to resolve to exclude the press and public by virtue of the private nature of the business to be transacted.

### **Questions and statements from the Public**

Questions and statements from the public are not permitted at meetings of this Committee. [Annex 4.2](#) of the Epsom & Ewell Borough Council Operating Framework sets out which Committees are able to receive public questions and statements, and the procedure for doing so.

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## **AGENDA**

### **1. DECLARATIONS OF INTEREST**

To receive declarations of any Disclosable Pecuniary Interests or other registrable or non-registrable interests from Members in respect of any item to be considered at the meeting.

### **2. MINUTES OF THE PREVIOUS MEETING** (Pages 5 - 8)

The Group is asked to confirm as a true record the Minutes of the Meeting of the Group held on 31 January 2025 (attached) and to authorise the Chair to sign them.

### **3. 2026/27 STRATEGIC FINANCIAL PLANNING** (Pages 9 - 18)

This report provides guidance on setting the Council's budget for 2026/27 and the following two years.

### **4. REVIEW OF RESERVES** (Pages 19 - 30)

This report presents a review of reserves and recommends minimum reserve balances to ensure sound management of the Council's finances.

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**Minutes of the Meeting of the FINANCIAL STRATEGY ADVISORY GROUP held at the Council Chamber, Epsom Town Hall on 31 January 2025**

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**PRESENT -**

Councillor Neil Dallen (Chair); Councillors Hannah Dalton, Liz Frost, Alison Kelly and Clive Woodbridge

Absent: Councillor Peter O'Donovan

Officers present: Peter Sebastian (Director of Corporate Services (S151)) and Sue Emmons (Chief Accountant)

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**14 DECLARATIONS OF INTEREST**

No declarations of interest were made by councillors regarding items on the agenda for the meeting.

**15 MINUTES OF THE PREVIOUS MEETING**

The minutes of the Financial Policy Panel meeting held on 22 November 2024 were agreed as a true record to be signed by the Chair.

**16 BUDGET AND COUNCIL TAX REPORT 2025/26**

Members discussed the following issues:

- The Business Rates pool and why EEBC is not included for 2025/26.
- The increased costs of NIC for 2025/26 and the estimated government funding support for this.
- The postponed Fair Funding Review.
- The occupancy status of some of the Council's investment properties.
- The Extended Producer Responsibility funding for 2025/26 and future assumptions.
- Potential costs of the Local Government Reorganisation and the potential for urgent decisions.
- The level of Council Tax increase for 2025/26.

- Action 4 of the Corporate Peer Challenge Action Plan relates to training. The level of budget for Member Development has been benchmarked against other Surrey districts and it was suggested that the current budget of £3.5k be uplifted within the 2025/26 financial year by £2.5k (final figure to be agreed with the Chair and Deputy Chair of Strategy & Resources Committee) to bring in line with the average figure per Member. The Director of Corporate Services confirmed that the inflationary contingency budget could be used to increase this budget to the required level, as the budget had not been uplifted for some years. The authority to allocate contingency budgets sits with the S151 Officer as per the financial regulations.

Following consideration of the above matters and the report's contents, the Group moved to consider the report recommendations, which were agreed as follows, to:

- (1) Provide the Chief Finance Officer with any further feedback needed to finalise the 2025/26 Budget and Council Tax report;**
- (2) Note the provisional Local Government financial settlement for 2025/26 announced on 18 December;**
- (3) Support that any surplus/deficit on 2024/5 business rates income, and any change in projected business rates income for 2025/26, will be offset by a transfer to or from the Collection Fund Equalisation Reserve, as set-out in Section 4 of the report;**
- (4) Support a recommendation to Council of a council tax increase of 2.98% (£6.75 per annum for a Band D equivalent property) for 2025/26.**

## 17 TREASURY MANAGEMENT STRATEGY 2025/26

Members discussed the following issues:

- The approved countries for investment on the list in section 5.17 of the Treasury Management Strategy and proposed that Abu Dhabi (UAE) and Qatar be removed from the list to go to Full Council. USA was discussed and agreed it should remain for this year but requested that the Finance team provide advice on the potential impact of removing the USA from the list of approved countries for investment, for review in advance of the 2026/27 financial year and an assessment, from the Council's Treasury advisors, on whether there are any bitcoin investment opportunities that might fit within the Council's agreed risk profile for investments.
- It was highlighted that recommendation 2 should say section 5.17 and not section 7 which was included in the report.

Following consideration of the report's contents, the Group moved to consider the report recommendations, which were agreed as follows:

- (1) Recommend to Full Council that the treasury management strategy, which includes the following, be approved:**
  - 1.1 The treasury management strategy and the treasury prudential indicators contained therein;**
  - 1.2 The capital prudential indicators and limits;**
  - 1.3 The borrowing strategy contained within the treasury management statement;**
  - 1.4 The annual investment strategy;**
  - 1.5 The minimum revenue provision policy statement;**
  - 1.6 The treasury management practices.**
- (2) Advise whether any countries should be considered for removal from the list of approved investable countries at section 5.17 of the treasury management strategy.**

*The meeting began at 2.00 pm and ended at 2.36 pm*

COUNCILLOR NEIL DALLEN (CHAIR)

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## 2026/27 STRATEGIC FINANCIAL PLANNING

<b>Head of Service:</b>	Cagdas Canbolat, Director of Corporate Services and Section 151 Officer (Chief Finance Officer)
<b>Report Author</b>	Cagdas Canbolat
<b>Wards affected:</b>	(All Wards);
<b>Urgent Decision?</b>	No
<b>Appendices (attached):</b>	Appendix 1 – Reporting Timetable

### Summary

This report provides guidance on setting the Council's budget for 2026/27 and the following two years.

### Recommendation(s)

**The Group is asked to recommend to Strategy & Resources Committee:**

- (1) The amendment to the Medium Term Financial Strategy position and note the budget gap for the relevant years as set out in table 4.2**
- (2) The proposed Medium Term Financial Strategy is in line with council priorities, prudent and sets a framework for a strong financial control.**

**The Group is further asked to note:**

- (3) The latest 2024/25 outturn position.**
- (4) The latest reserves balance.**
- (5) The budget reporting timetable in Appendix 2.**

## 1 Reason for Recommendation

- 1.1 Strategy and Resources Committee has agreed one of its key priorities is to achieve financial stability for the Council. Approving the recommendations will provide a clear framework for the Council to set its budget for 2026/27.

## **2 Background**

- 2.1 This report updates the council's Medium Term Financial Strategy approved by members in February 2025 and outlines the main changes since that date.
- 2.2 The council's financial position for 2024/25 has resulted in several identified pressures. There are structural deficits in some key areas within the council which cannot always be covered through favourable variances in other parts of the council or reserves.
- 2.3 Other changes include Consumer Price Index (CPI) increasing from 2.8% in February 2025 to 3.5% in May 2025. RPI (Retail Price Index) was 3.4% in February 2025, 3.2% in March 2025, and now 4.5% in April 2025. Bank of England rate was 4.75% in February 2025 and fell to 4.25% in May 2025.
- 2.4 We have worked to update our funding assumptions, as well as addressing historical and embedded pressures which could crystallise over the MTFS period. Based on the latest assumptions, the council is reporting a likely budget gap of £1.928 million in 2026/27 and an accumulated gap of £5.063 million by the end of 2028/29.
- 2.5 The MTFS aims to maintain the financial health of the Council whilst delivering Council priorities. This report proposes the approach needed to achieve a balanced budget for 2026/27 and future years during the term of the financial strategy.
- 2.6 The report also proposes the revenue and capital budget reporting timetables for preparing the 2026/27 budget (detailed in Appendix 1).
- 2.7 It is important to note that these forecasts are made at a time of uncertainty in local government finance, particularly in Surrey as it responds to the Local Government Reorganisation. Following the December 2024 English Devolution White Paper, Surrey Councils received a statutory invitation to submit a unitary proposal by 9 May 2025. The council has submitted its proposal and awaits the outcome of its proposal. In the meantime, it would be expected that those councils which are due to become part of any future East Surrey authority should set budgets that are sustainable and prudent.

## **3 Financial Position 2024/25**

- 3.1 The Council has audited accounts up to 31 March 2024 (2023/24) and is finalising unaudited accounts for 2024/25 which will be subject to audit in early autumn.
- 3.2 The draft revenue outturn for 2024/25 shows that expenditure exceeded budget by £0.242 million driven largely by increased demand for temporary accommodation and reduced service income. The overspend on this occasion has been covered, one off, by general fund reserves.

- 3.3 The Council had an approved capital programme of £7.4 million for 2024/25 (excluding the sum earmarked for the Town Hall relocation) and spent £5.2 million, with the majority of the unspent capital programme expected to be carried forward into 2025/26. The level of uncommitted capital receipts reserves stood at £1.88 million at the end of 2024/25 (including the commitment required to fund the 2025/26 programme).
- 3.4 More detail on the Council's financial performance for 2024/25 will be provided in the Provisional Financial Outturn report to Strategy & Resources Committee at the end of July.

#### 4 Budgeted Forecast 2026/27 and Beyond

- 4.1 The Council in February 2025 approved a balanced budget for 2025/26 but highlighted challenges for future years.
- 4.2 The table below highlights the changes identified since and the latest gap in council budget which needs to be addressed as part of in year planning to set a balance budget for 2026/27.

	2025/26	2026/27	2027/28	2028/29
Approved Budget - February 2025	0	1,078	1,517	2,045
<b>Budget Changes since February 2025</b>				
Temporary Accommodation (TA)	-	500	0	0
TA Savings Unachievable	-	300	0	0
Fair Funding Review (FFR)	-	250	0	0
Fleet Contract Renewal	-	0	300	0
Pay Award - Additional 1%	-	120	0	0
<b>Total Expenditure</b>	<b>0</b>	<b>1,170</b>	<b>300</b>	<b>0</b>
Contractual Fee Increase	-	(70)	(374)	(353)
Unused Contingency	-	(250)	0	0
<b>Total Income</b>	<b>0</b>	<b>(320)</b>	<b>(374)</b>	<b>(353)</b>
<b>Budget Gap</b>	<b>(0)</b>	<b>1,928</b>	<b>1,443</b>	<b>1,692</b>
<b>Budget Gap - Cumulative</b>	<b>(0)</b>	<b>1,928</b>	<b>3,371</b>	<b>5,063</b>
<b>Working Balance Reserve BF</b>	<b>1,555</b>			

- 4.3 Major savings/additional income of at least £1.928m in 2026/27 will be required to achieve a balanced budget at the end of this period. Further additional savings will be required in future years.

4.4 Key assumptions within the latest forecast are as follows:

- 4.4.1 Temporary Accommodation Budget has been consistently overspending the allocated budget. In 2024/25 there was an adverse outturn variance of £0.580 million. We expect a similar position in 2025/26 based on increasing TA demand and supplier cost. Therefore based on latest modelling the council plans to add a growth base budget of £0.5 million in 2026/27.
- 4.4.2 Last year the council was working on the basis that TA numbers would reduce through “move on” and prevention work. Even though this work will help to suppress the rising numbers in TA external factors nationwide are causing demand to continue to rise. Therefore, the savings target of £0.3 million agreed previously is no longer achievable, and must be addressed as part of this MTFS.
- 4.4.3 In relation to general council funding, the council has been working closely with finance officers across Surrey and is expecting to lose out more than previously assumed as part of Fair Funding Review, as a result of business rates and baseline funding reset. A budget pressure of £0.5 million was included in the MTFS presented to Council in February 2025 but an additional £0.25 million pressure has been added to the revised figures to reflect the expected loss in government funding.
- 4.4.4 Furthermore, Council fleet contract will need to be reviewed and is expected to cost the council at least an additional base budget increase of £0.3 million by the time it renews in 2027/28. Finance is currently reviewing the cost of the new arrangement with the service and any changes will be reflected in the updated MTFS position.
- 4.4.5 Annual staff pay inflation and prices inflation was forecast at 2% per annum. However current RPI and CPI are 4.5% and 3.5% respectively. Therefore, it is prudent that we review our pay award assumption, and an additional £0.12 million has been included within the revised plan.

- 4.5 It should be noted that only new changes have been identified above as previous pressures / savings was confirmed and addressed within past reports.

## 5 Revenue Reserves

- 5.1 The current level of revenue reserves is reported to FSAG as a separate agenda item.
- 5.2 The Council uses its reserves proactively to manage risks, to invest in service transformation for the future, or to respond to unexpected events or emerging needs. Generally, reserves should not be used to fund day-to-day services on an ongoing basis, as reserves would eventually become depleted without a plan for replenishing them.

- 5.3 During the MTFP period there will be some reliance on reserves which is considered a reasonable approach in the short term, as use of reserves gives the Council time to consider a scheduled review of services to address structural deficits. However, in recent years the council has relied on reserves to balance its budget, and must ensure that going forward it places less reliance on reserves and address structural deficits.

## **6 Approach to Achieving a Sustainable Balanced Budget**

- 6.1 Officers must draft a work programme with members to address the budget gap of £1.928m in 2026/27 and future years.
- 6.2 The key features of the programme comprise:
- 6.2.1 Re-review opportunities considered in the past.
  - 6.2.2 Ongoing review of existing asset utilisation to realise cost reductions in Council operational buildings and increased income from investment properties.
  - 6.2.3 Ensure any new powers are considered to generate additional income for the Council.
  - 6.2.4 Undertake a review of reserves to be reported to Financial Strategy Advisory Group to seek support for recommended minimum reserve balances and support the MTFS process (see separate agenda item).
  - 6.2.5 A comprehensive review of fees and charges. Heads of Service review fees and charges annually to ensure any increases are achievable and report to policy committees for approval.
  - 6.2.6 To maximise external funding and partnership opportunities, for example submitting grant applications as opportunities arise.
  - 6.2.7 Monitor the assumptions throughout the year and assess the impact on the council's medium term financial strategy.

## **7 Timetable for Delivery of 2026/27 Budget**

- 7.1 A proposed formal committee timetable for the revenue and capital programme is presented at Appendix 1.
- 7.2 In addition to the formal committee meetings, officers will maintain engagement with Policy Chairs throughout the budgeting process.
- 7.3 The Council needs to make significant progress in achieving a balanced budget while recognising that there can be no permanent reliance on revenue reserves to fund the delivery of services.

## **8 Risk Assessment**

Legal or other duties

8.1 Risk Assessment

- 8.1.1 The Council has a statutory duty to set a balanced budget each year, demonstrating how planned expenditure on services will be fully funded.
- 8.1.2 Should the Council not progress the proposed budget strategy and fail to achieve a significant net reduction in its cost of services, there is a clear risk that reserves will continue to diminish with the Council eventually becoming unable to set a balanced budget.
- 8.1.3 A full budget risk assessment will be presented to Full Council alongside the final 2026/27 budget proposals in February 2026.
- 8.1.4 There is particularly heightened risk around commercial property in the current environment. Should a tenant leave or rent reductions have to be agreed to retain them, the Council's budget deficit could increase significantly (this applies both for property owned by the Council and its subsidiary, EEPIC), and in the event of tenant departure, the Council would become liable for running and maintenance costs while a new tenant is found. To mitigate this risk, officers proactively engage with tenants and the Council holds the Property Income Equalisation Reserve as a buffer to mitigate the risk of income loss in the short term.
- 8.1.5 In addition, the risk of increasing homelessness expenditure remains significant, with the Council pursuing its Homelessness Reduction Action Plan to mitigate this pressure.

8.2 Crime & Disorder

- 8.2.1 None arising from the contents of this report.

8.3 Safeguarding

- 8.3.1 None arising from the contents of this report.

8.4 Dependencies

- 8.4.1 None arising from the contents of this report.

8.5 Other

- 8.5.1 None arising from the contents of this report.

**9 Financial Implications**

- 9.1 The provisional financial outlook for 2026/27 and future years is covered in this report.

- 9.2 In preparing the Council's 2026/27 budget, the Council will also need to approve a new pay policy, enabling details from the new approved policies to be incorporated into the budget.
- 9.3 The Council has adequate resources to carry out a budget review supporting the delivery of the efficiency plan. Should the Council require a more comprehensive review of services, additional resources and expertise may be required.
- 9.4 **Section 151 Officer's comments:** The 2026/27 budget must ensure that the Council's finances are sustainable whilst delivering the priorities of the Council.

## 10 Legal Implications

- 10.1 The Council has a statutory responsibility to set a balanced budget each year.
- 10.2 The provisions of section 25 of the Local Government Act 2003 require that, when the Council is making the calculation of its budget requirement, it must have regard to the report of the Chief Finance (s.151) Officer as to the robustness of the estimates made for the purposes of the calculations and the adequacy of the proposed financial reserves. The report will be formally made to the Council's budget setting meeting in February.
- 10.3 **Monitoring Officer's Comments:** None arising from the contents of this report.

## 11 Policies, Plans & Partnerships

- 11.1 **Council's Key Priorities:** The following Key Priorities are engaged: Effective Council.
- 11.2 **Service Plans:** The matter is included within the current Service Delivery Plan.
- 11.3 **Climate & Environmental Impact of recommendations:** Funding of the Climate Change Action Plan is determined on a business case basis, as funding opportunities arise.
- 11.4 **Sustainability Policy & Community Safety Implications:** None arising from the contents of this report.
- 11.5 **Partnerships:** None arising from the contents of this report.
- 11.6 **Local Government Reorganisation Implications:** see paragraph 2.7

## 12 Background papers

- 12.1 The documents referred to in compiling this report are as follows:

**Previous reports:**

- [2025/26 Budget Report to Full Council, February 2025](#)

**Other papers:**

- [Medium Term Financial Plan 2024-2028](#)



## APPENDIX 1 - REVENUE BUDGET PLANNING 2026/27 - REPORTING TIMETABLE

MONTH	TOPIC	REPORT TO	OBJECTIVE
<b>JULY 2025</b>	Provisional Financial Outturn for 2024/25	Strategy & Resources Committee	Report unaudited outturn figures for last year. Agree year end transfers for 2024/25 to/from strategic reserves. Agree capital budgets to roll forward into 2025/26.
	Financial Planning for 2026/27 (MTFS)	Strategy & Resources Committee	Update Medium Term Financial Strategy (MTFS) Set framework for 2026/27. Agree financial planning strategy. Confirm budget reporting timetable.
<b>SEPT &amp; OCT 2025</b>	Budget Targets 2026/27	Policy Committees	Communicate budget targets for 2026/27 and guidance on the preparation of service budget reports.
	First Quarter Budget Monitoring for 2025/26	Audit & Scrutiny Committee	Report revenue and capital quarter 1 forecast outturn.
<b>NOV 2025</b>	Second Quarter Budget Monitoring	Audit & Scrutiny Committee	Report revenue and capital quarter 2 forecast outturn for 2025/26.
	MTFS Update	Strategy & Resources Committee	Update on budget preparation and local government funding (if required).
<b>JAN 2026</b>	Service Estimates	Policy Committees	Recommend service budgets to Council.
	Local Govt. Finance Settlement	Financial Strategy Advisory Group	Guidance on Council Tax Options following announcement of grant settlement / business rates. Update of Financial Plan (MTFS)
	2026/27 Treasury Management Strategy	Financial Strategy Advisory Group	Recommend the Treasury Management Strategy to Full Council for approval.

MONTH	TOPIC	REPORT TO	OBJECTIVE
<b>FEB 2026</b>	2024/25 Audited Financial Statements & Audit Findings	Audit & Scrutiny Committee	Report audited financial position for the year ended 2024/25.
	Third Quarter Budget Monitoring	Audit & Scrutiny Committee	Report revenue and capital quarter 3 forecast outturn for 2025/26.
	Budget Meeting	Full Council	Council Tax and Budget decisions.

### CAPITAL PROGRAMME REVIEW 2026/27 - REPORTING TIMETABLE

MONTH	TOPIC	REPORT TO	OBJECTIVE
<b>SEPT to NOV 2025</b>	2026/27 Capital Proposals	Financial Strategy Advisory Group	To assess 2026/27 capital proposals and an indicative programme for 2027/28 to 2030/31.
<b>JAN 2026</b>	Capital Project Appraisals	Policy Committees	Recommend capital schemes to Council.
<b>FEB 2026</b>	Budget 2026/27: Capital Programme	Full Council	Approve capital programme for 2026/27 and updated provisional programme 2027/28 to 20230/31.
<b>MARCH 2026</b>	Publish Capital Programme		

## REVIEW OF RESERVES

<b>Head of Service:</b>	Cagdas Canbolat, Director of Corporate Services and Section 151 Officer (Chief Finance Officer)
<b>Report Author:</b>	Cagdas Canbolat
<b>Wards affected:</b>	(All Wards);
<b>Appendices (attached):</b>	None

### Summary

This report presents a review of reserves and recommends minimum reserve balances to ensure sound management of the Council's finances.

### Recommendation (s)

#### The Group is asked to:

- (1) Consider and review whether the recommended General Fund unallocated reserve level of £1.5 million is appropriate for the sound management of the Council's finances;
- (2) Review the methodologies and levels of other reserves in light of the latest MTFS and report back to FSAG.

#### The Group is asked to recommend to full council:

- (3) Proposed changes to the General Fund unallocated reserve levels.

## 1 Reason for Recommendations

- 1.1 The recommendations will ensure that the Council maintains an appropriate level of reserves for the sound management of the Council's finances.

## 2 Background

- 2.1 The latest Medium-Term Financial Strategy (MTFS) was approved by Full Council in February 2025 following a review of the Council's financial standing.
- 2.2 The MTFS included the following objectives for budgets and revenue reserves:
  - 2.2.1 Produce a balanced revenue budget each year;

- 2.2.2 Utilise reserves proactively to manage major risks to the Council's finances.
- 2.2.3 Maintain a prudent level of strategic reserves and a minimum balance of the following reserves:
  - **Working Balance Reserves of £2.5m (Revised to £1.0m)**
  - **Corporate Projects Reserves - £1m (Revised to £0)**
  - **Capital Receipt - £1m (Unchanged)**
- 2.3 However, in May 2025, the EEBC Strategic Priorities 2025-27 report to Council proposed a reduction in the minimum level of corporate projects reserve from £1.0 million to zero, and a reduction in the minimum working balance from £2.5 million to £1.0 million.
- 2.4 Council agreed the revised minimum levels of these reserves and agreed to create a new strategic priorities reserve totalling £2.2 million using a transfer of £1.2 million from general fund working balance and £1.02 million from the corporate projects reserve.
- 2.5 Whilst the May report to Council considered the general fund working balance and corporate project reserves, the purpose of this report is to review the current level of all of the Council's reserves; to understand the known risks facing the Council; and to recommend new level of reserves to be held following a benchmarking exercise.
- 2.6 Due to change in landscape in Surrey, future financial decisions need to consider the Local Government Reorganisation context and its likely timescales of the vesting day on 1 April 2027.

### 3 Reserves

- 3.1 In local government, reserves play a crucial role in sound financial management. They typically exist to enable councils to invest in service transformation for the future, and/or to manage risks by providing resources to respond to unexpected events or emerging needs.
- 3.2 Reserves have been built up over several years, mainly through accumulated surplus of income over expenditure or one-off grants. The council has had healthy level of reserves to respond to unexpected change in local government finance. However, there has been some level of reliance on reserves which is not sustainable in the long run, diminishing reserve levels and increasing structural deficits that has not be sufficiently addressed.
- 3.3 All reserve balances on 31 March 2025 are provisional, pending the 2024/25 outturn position being reported to Strategy & Resources in July, and the external audit of financial year 2024/25.

- 3.4 Reserves held by EEBC are distinguished between general fund and capital; there is clear guidance and statutory rules for how these two different types of reserves can be applied.

1. General Fund Revenue Reserves

- 3.5 The Council's general fund accounts for the day-to-day running of Council services. General Fund reserves can be applied to fund revenue expenditure and can also be used to fund capital expenditure.

- 3.6 However, these reserves should not be utilised as a source of long-term funding for day-to-day revenue expenditure on an ongoing basis; this would be unsustainable as the reserves would eventually deplete.

- 3.7 At EEBC General Fund reserves can be split into three sub-categories:

3.7.1 Reserves available for general use;

3.7.2 Contingencies unavailable for general use;

3.7.3 Ringfenced funds/grants for specific purposes.

1A. Reserves Available for General Use

- 3.8 This category includes the working balance, which accounts for the day to day running of Council services and is maintained to safeguard against potential financial risks beyond those for which specific contingencies have been created.

- 3.9 The corporate projects reserve is also available to fund one-off corporate priority projects.

- 3.10 After deducting forecast transfers and commitments, these reserve balances total c.£2.366 million (23% of Net Council Budget)

- 3.11 These reserves can be used to fund most types of expenditure and are presently relied upon to support the Council in covering unexpected and / or one off expenditure.

1B. Contingencies Unavailable for General Use

- 3.12 Contingencies unavailable for general use are amounts set aside to manage key material risks faced by the Council. For each contingency, the purpose and usage are clearly defined.

- 3.13 After deducting forecast transfers and commitments, these reserve balances total c.£13.818 million.

- 3.14 Contingencies are necessary to manage elevated risks around the present funding sources for services. In particular, compared to pre-2010 the Council is now far more reliant on higher risk income from investment properties and fees and charges to fund services. These higher risk income streams replaced previously 'guaranteed/lower risk' grant funding from central government, which was cut significantly across the 2010's.
- 3.15 The current economic environment has also created a significant demand on reserves to fund elevated expenditure on some services (such as general inflation and rising demand for services like temporary accommodation). The latest 2024/25 adverse variance outturn of £0.242 million will be covered from the general fund working balance reserve (and is reflected in the balance at 31 March 2025 in the table in 3.19).

#### 1C. Ringfenced Funds/Grants for Specific Use

- 3.16 Ringfenced funds are reserves that the Council has previously agreed to set aside for a specific policy purpose, for example the Residential Property Acquisition Fund. Where it is a local decision to ringfence funds, Council can decide to un-ringfence funds if the specific policy purpose is no longer a priority or has been achieved.
- 3.17 After deducting forecast transfers and commitments, these reserve balances total c.£0.581 million.
- 3.18 This category also includes specific external grants, which were received with conditions attached requiring them to be used for a specific purpose/service.

#### Summary of Revenue Reserves

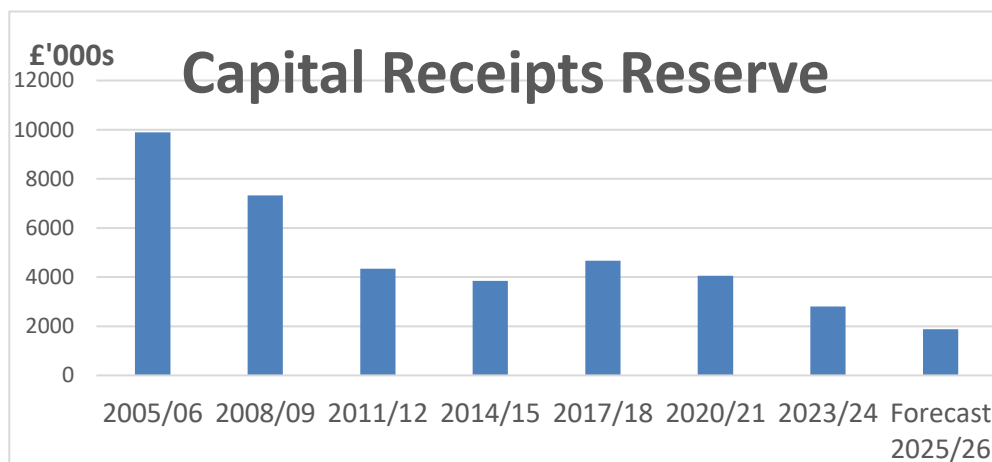
- 3.19 The following table shows a breakdown of all general fund revenue reserves which hold a forecast balance of £16.765 million after taking existing commitments and forecast transfers into account.

	Balance at 31 March 2024	Balance at 31 March 2025	Commitments & Forecast Transfers	Forecast Balance
	£'000	£'000	£'000	£'000
General Fund Working Balance	2,997	2,755	(1,200)	1,555
Corporate Projects Reserve	4,128	3,838	(3,027)	811
<b>Sub-Total - Reserves available for general use</b>	<b>7,125</b>	<b>6,593</b>	<b>(4,227)</b>	<b>2,366</b>
Strategic Priorities Reserve	0	0	2,072	2,072
Repairs and Renewals	596	686	(15)	671
Insurance	434	420	0	420
Property Maintenance	515	376	(345)	31
VAT Reserve	206	206	0	206

Collection Fund Equalisation Reserve	3,824	2,837	(1,486)	1,351
Commuted Sums	1,439	1,439	0	1,439
Interest Equalisation Reserve	784	934	0	934
Property Income Equalisation Reserve	7,224	6,694	0	6,694
<b>Sub-Total - Contingencies unavailable for general use</b>	<b>15,022</b>	<b>13,592</b>	<b>226</b>	<b>13,818</b>
Residential Property Acquisition Fund	978	0	0	0
Community Safety	116	104	(17)	87
Sports & Leisure Development Projects Fund	123	121	(10)	111
Place Development Grants (d)	772	590	(520)	70
Prevention, Personalisation & Partnership Fund	125	93	(24)	69
Housing/Homelessness Support Grants	910	708	(708)	0
HIA Hardship fund	124	124	0	124
Basic Payments Scheme	136	124	(32)	92
Other smaller grants	28	28	0	28
<b>Sub-Total - Ringfenced funds/grants for specific use</b>	<b>3,313</b>	<b>1,892</b>	<b>(1,311)</b>	<b>581</b>
<b>Total Revenue Reserves</b>	<b>25,460</b>	<b>22,077</b>	<b>(5,312)</b>	<b>16,765</b>

### Capital Reserves

- 3.20 Capital receipts reserves are only available to finance future capital expenditure.
- 3.21 Capital reserves are used to invest in services/assets and are monitored closely along with other funding sources, such as community infrastructure levy (CIL) and section 106 planning funds, in quarterly reports to Audit & Scrutiny Committee.
- 3.22 The Council's own capital receipts reserves have been diminishing over a number of years, as shown by the following table, with the uncommitted balance now forecast at just £1.88 million after funding 2025/26's capital programme:



3.23 To help protect the capital receipts reserve balance, the Council's MTFS includes the following agreed policy objectives:

3.23.1 Optimise the use of Council assets, realise capital receipts from sale of surplus assets;

3.23.2 Prioritise capital investment to ensure retained property is fit for purpose;

3.23.3 Maintain a minimum uncommitted level of capital receipts reserves of £1 million until 31 March 2028;

3.23.4 Aim to maintain a minimum of £0.5 million annual funding from revenue to fund the annual capital programme.

3.24 In addition to any proposed projects for the 2026/27 capital programme, there may be a requirement of up to £0.7 million to fund changes required to comply with the governments national waste strategy.

#### **4 Review of Revenue Reserves**

4.1 An assessment of key reserves will be part of this review.

4.2 Each reserve has a clearly specified and defined use either as a contingency, as part of the council's financial risk management, or to meet specific funding commitments in future years.

##### Reserves Available for General Use

4.3 These reserves can be used to fund most types of expenditure and are presently relied upon to support the Council in managing its way to delivering a sustainable annual revenue budget that requires no underlying use of reserves to balance.

4.4 The following reserves are included within this category.

##### **General Fund Working Balance**

4.5 The working balance accounts for the day-to-day running of Council services and is maintained to safeguard against potential financial risks beyond those for which specific contingencies have been created.

4.6 The 'normal' level of un-earmarked reserves should reflect the Council's long-term needs and be based on ongoing operational requirements. This will include a number of factors, the main ones being the gross annual expenditure and the extent to which long-term service contracts reduce the Council's flexibility to respond to financial shocks.

4.7 The working balance currently stands at £1.555 million (15% of Net Budget) slightly above the revised minimum balance of £1.0 million set in May 2025.



- 4.8 A minimum balance of £1.0 million would represent approx. 9.7% of the Council's net operating expenditure budget of £10.269 million for 2025/26.
- 4.9 When we compare this to reserves levels of council's in Surrey this is at the low end. See table below:

	Budget	GF Reserves	% of Budget
Councils	£'M	£'M	%
Surrey County	<b>1,197.100</b>	49.100	4%
Runnymede Borough	<b>12.417</b>	18.944	153%
Surrey Heath Borough	<b>14.694</b>	7.424	51%
Guildford Borough	<b>16.709</b>	4.059	24%
Tandridge District	<b>12.798</b>	2.787	22%
Waverley Borough	<b>16.568</b>	3.536	21%
Elmbridge Borough	<b>21.818</b>	3.909	18%
Reigate & Banstead Borough	<b>22.378</b>	3.500	16%
Epsom & Ewell Borough	<b>10.269</b>	1.555	15%
Woking Borough	<b>31.400</b>	3.955	13%
Mole Valley District	<b>11.107</b>	0.958	9%

### Corporate Projects Reserve

- 4.10 This reserve was established to provide revenue funding for projects that fall outside of the day-to-day delivery of services, such as:
- 4.10.1 Spend to save one-off costs - some of the Council's spend to save initiatives involve one-off pump priming costs which cannot be contained within the base budget;
- 4.10.2 Funding for one-off corporate priority projects;
- 4.10.3 Partnership funding - grants of contributions for schemes that cover a number of years can be held in this fund until expenditure is incurred (for example, government new burdens grants).

- 4.11 The balance on the corporate projects reserve currently stands at £0.811 million, including funding a request to Strategy & Resources Committee in July 2025 of £0.25 million for Hook Road Arena.
- 4.12 The opportunities to replenish this reserve have significantly reduced in recent years, due to reductions in funding from new homes bonus grant, which had been the main source of funding for this reserve in the past. Furthermore, with the Council facing an underlying revenue budget gap this reserve may come under significant pressure in future years while the Council progresses transformations necessary to reduce and eliminate the reliance on reserves to fund the day-to-day revenue budget.
- 4.13 After carrying out some benchmarking in Surrey, it is recommended that the working balance at EEBC is at least 15% of net revenue budget.**

Contingencies Unavailable for General Use

- 4.14 A second category of revenue reserves are contingencies, which are funds set-aside to allow the Council to respond to particular risks and circumstances. If these resources were not set-aside to mitigate potential losses/costs, then the Council would be required to find alternative funding potentially from cuts to services within the general fund.
- 4.15 All these reserves make up the largest proportion of forecast revenue reserves of £13.818 million.
- 4.16 However we recommend that the following reserves are reviewed throughout 2025/26 as part of the latest MTFS:
- Property Income Equalisation Reserve (£6,694m)
  - Collection Fund Equalisation Reserve (£1,351)
  - Interest Equalisation Reserve (£0.934m)
- 4.17 Due to the changing national and local context and the framework set within the latest MTFS report, it is recommended officers review the contingencies and methodologies linked to these reserves to ensure continued prudent level of reserves at the same time council priorities are met and report back to the Group.

## 5 Proposals

- 5.1 It is proposed that the Group:
- 5.1.1 Consider and review whether the overall level of reserves and contingencies are appropriate for the sound management of the Council's finances;
- 5.1.2 Review the individual reserve and contingency balances and consider whether to support new level of reserves and policies.

## 6 Risk Assessment

Legal or other duties

6.1 Impact Assessment

6.1.1 The Council holds reserves both as a contingency against unforeseen expenditure and as provisions for known, future expenditure. The Council's reserves are actively managed as part of the MTFS. Any significant reduction in the level of reserves would naturally carry the risk of reducing the Council's financial resilience and the ability to deal with unforeseen circumstances.

6.1.2 In recent years the level of reserves has enabled the Council to manage the financial impact of Covid-19, elevated interest rates/inflation, energy bill shocks and the loss of commercial property tenants, in a planned and structured way. The prospect of further funding cuts through central government's Fair Funding and Retained Business Rates Reviews means that the retention and ability to use strategic reserves to smooth out any funding reductions changes has become even more critical as reductions to the net budget become harder to deliver.

6.1.3 The Council currently finances its capital financing requirement from £64.4 million of Public Works Loan Board loans and the balance from internal borrowing which relies on cash balances. Should reserve, and consequently cash balances, fall significantly, there is a risk that the internal borrowing would need to be replaced by external borrowing which would increase annual interest rates faced by the Council.

6.1.4 The Council's revenue budget is reliant on c.£1 million of interest being generated from cash/reserve balances each year to fund services. Should cash/reserve balances fall, less interest income would be generated/available to fund services, which would increase the Council's projected budget deficit.

6.2 Crime & Disorder

6.2.1 None arising directly from the contents of this report.

6.3 Safeguarding

6.3.1 None arising directly from the contents of this report.

6.4 Dependencies

6.4.1 None arising directly from the contents of this report.

6.5 Other

6.5.1 None arising directly from the contents of this report.

## 7 Financial Implications

- 7.1 Financial implications are set out in the body of the report.
- 7.2 Interest generated from reserves and balances held by the Council provide a significant level of funding for its services, with £1 million planned income for 2025/26. There is currently no requirement for the Council to apply interest to individual balances held such as CIL and S106.
- 7.3 **Section 151 Officer's comments:** The Council maintains a reasonable level of reserves and balances to help manage the risks faced. However, over the next couple of years these reserves are expected to come under further pressure to help fund services as the Council progresses its transition to a sustainable revenue budget that requires no use of reserves to balance.
- 7.4 Factors such as uncertainty caused by elevated inflation, LGR, the outcome of the Fair Funding Review, the Council's reliance on higher risk income streams (such as from commercial property), and demands on housing/homelessness services, all pose greater risk to the Council's finances.
- 7.5 This report should be read in conjunction with the strategic financial planning budget report also included on the agenda for this meeting.

## 8 Legal Implications

- 8.1 **Legal Officer's comments:** None arising from the contents of this report.

## 9 Policies, Plans & Partnerships

- 9.1 **Council's Key Priorities:** The following Key Priorities are engaged: Effective Council.
- 9.2 **Service Plans:** The matter is included within the current Service Delivery Plan.
- 9.3 **Climate & Environmental Impact of recommendations:** None arising from the contents of this report.
- 9.4 **Sustainability Policy & Community Safety Implications:** None arising from the contents of this report.
- 9.5 **Partnerships:** None arising from the contents of this report.
- 9.6 **Local Government Reorganisation (LGR) Implications:** The £0.380 million recently announced by government to 'cover the cost' of proposals (for the whole of Surrey) was woefully inadequate but an indication of the level of funding that may be available for Councils in Surrey to address LGR. It is for this reason the council will review its reserves to ensure it has funds to cover unexpected costs during a time of such uncertainty.

## 10 Background papers

10.1 The documents referred to in compiling this report are as follows:

### **Previous reports:**

- [2025/26 Budget Report to Full Council, February 2025](#)

### **Other papers:**

- [2024/25 Budget and Medium-Term Financial Plan 2024-2028, Council, February 2024](#)
- [Review of Reserves, Financial Strategy Advisory Group, July 2024](#)
- [EEBC Strategic Priorities 2025-27, Council, 6 May 2025](#)

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